
New Rental Housing: Why Don't They Build Some?

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What Kind of Problem is it?

- ↓ *Economic ?*
- ↓ *Social ?*
- ↓ *Political ?*
- ↓ *Technical ?*
- ↓ *Market ?*
- ↓ *Taxation ?*
- ↓ *Financing ?*

Most Common Answer: The “Economics” Don’t Work

“Economics of new private sector rental investment do not work.”

- at today’s costs and revenues
- returns are not sufficient
- risks too great to justify investment

Project Development Costs

- Land Costs
 - » rental must compete with condo non-residential developers
- Construction Costs
- Money Costs (Financing)
 - » compete with other forms of investment

Potential Options for improving the 'bottom line'

from 1997 Study - Metro Stakeholder's Panel

- free land lease 2.6%
- reduce property taxes 50% 2.1%
- free loan of \$10,000/unit 0.7%
- reduce municipal charges 0.6%
- free mortgage insurance 0.3%
- zoning 20% density bonus 0.3%

What about ‘Ability to Pay’?

Toronto's renter households (1996 Census):

- poverty rate 36%
- fall in real income, 1990-95 12%
- receiving welfare 8%
- paying over 30% on rent 44%

Average income:

» renters \$33,000; homeowners \$66,000

The Problem: “The Two Gaps”

Gap #1 between

- » affordable rents, and
- » existing market rents

Gap #2 between

- » existing market rents, and
- » economic recovery rents (i.e., making money)

Example of “The Two Gaps”

A. affordable rent	\$ 400
B. existing market rent	\$ 800
C. economic rent	\$1,300

» gap #1 between A & B = \$400

» gap #2 between B & C = \$500

Constraints on Market Supply

- national, global constraints
 - » mortgage interest rates & inflation
 - » returns on alternative investments
- local and regional
 - » cost and availability of zoned land
 - » tenant ability to pay
 - incomes, unemployment, social assistance
 - » tenant willingness to pay rent (e.g., buy a condo)

New Rental Housing Supply

Housing starts in the greater Toronto area

1996: total = 19,000
 social housing = 782 units
 private rental = 146 units

1997: total = 25,600
 social housing = 0
 private rental = 252

Ontario Housing Starts, 1990-96

	PRIVATE RENTAL	SOCIAL HOUSING	TOTAL STARTS
1990	7,000	6,900	62,700
1991	5,400	12,400	52,800
1992	2,300	15,700	55,800
1993	2,000	7,200	45,100
1994	1,400	3,800	46,600
1995	550	2,900	35,800
1996	900	800	43,000
1997			

Vacancy Rates, Toronto

Annual Fed. Gov. Survey, Oct. 1997:

- rental units surveyed 249,000
- vacant units found 2,043
 - » 1 bedroom: 766 units. avg. rent: \$680.
 - » 2 bedroom: 786 units. avg. rent: \$821.
- vacancy rate 0.8%

Rental Market Failure

Homeownership market

- » supply & demand works
- » only temp. imbalances: no market failure

Rental market

- » low vacancy rates = high demand
- » high demand/need; but no supply response
- » problem: 'demand' is not 'market demand'
- » social need instead; most tenants cannot afford new construction rent levels

With Market Failure ...

Tenants need protection

- » the market is not setting rents
- » landlords set rents; can easily discriminate
- » no new supply to compete with them
- » thus no fear of high vacancy rates
- » need for a third party to ensure fairness
- » rent regulations and fair landlord/tenant law

Rational for Rent Regulations

- 1) protect security of tenure
- 2) maintain affordability of existing rental stock
- 3) prevent regressive income redistribution
- 4) mediate conflicts relating to rental tenure

Why does the Problem Continue?

- Who is being harmed by the problem remaining unresolved?
- Who has an interest in solving the problem?
- Who benefits from the problem continuing?

The Players

- Developers/Builders
 - » Condo
 - » Rental
 - » House Builders
- Land Owners
- Apartment Owners
- Mortgage Lenders
- Charities & Agencies
- Media

- Taxpayers / Citizens
 - » Class; Gender; 'Race'
- Neighbourhood Assn
- Elected Officials
 - » Fed; Prov; Local
- Senior Civil Servants
- Professionals/Consultants
- Academics/Researchers